

# **EXHIBIT Y**

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Section: BUSINESS

#### WHEN DRUGSTORES TELL YOU NO

Barbara Demick, Inquirer Staff Writer

For a few weeks in October and November, thousands of city workers in Baltimore were perturbed to discover that half the drugstores in the city were refusing to honor their prescription-drug cards as payment.

"Our employees were calling us and asking, 'Where do we get our prescriptions?'" said Cheryl Curtis, the city's employee-benefits administrator.

The mayor of Baltimore stepped in to mediate, and the mess was cleared up in a few days. But the larger problem isn't disappearing. More than 132,000 disabled and retired mine workers now find themselves in the center of another brouhaha as some drugstores are threatening to cut off their prescription plan.

With alarming frequency, drugstores are defecting from the prescription plan business. The cardholders, who grew accustomed to presenting their handy pieces of plastic to the pharmacist in lieu of cash, increasingly find themselves turned away at the door.

Why would a store turn down business?

Simple. The drugstores say they are not making enough money and that their meager profits are being chiseled away by efforts on the part of prescription plan sponsors to reduce spending.

"We absolutely cannot fill a prescription at or below cost," said Alex Grass, chairman of Rite Aid Corp., the nation's largest drugstore chain.

On the other side of the storm are the insurers, HMOs, unions and employers struggling in an era when costs for drugs and other health-care items are soaring.

It is the consumer who gets caught in the middle.

An example is a recent dispute that erupted between Cigna Corp. and Rite Aid, two giants in different corners of the health-care system.

The Cigna HealthPlan of Pennsylvania, New Jersey and Delaware, an HMO, notified pharmacies it was reducing the rates it would pay them for filling the prescriptions of some cardholders.

Some pharmacies, including Thrift Drugs, the second-biggest chain in the Philadelphia area, swallowed the cuts. But Rite Aid refused.

"If Rite Aid doesn't want to give a discount, we don't need them in the network. That is a business decision we made," said Leo Carey, general manager of the Cigna plan.

"But the consumer ends up caught in the middle, and he ends up getting angry," Carey added. "If he's got a prescription plan and a Rite Aid close by, he doesn't want to drive to another pharmacy. . . . His card gets rejected, and he doesn't want to hear that we've made a business decision."

With the full clout of its more than 2,100 stores behind it, Rite Aid, based in Shiremanstown, near Harrisburg, is leading the fight against lower reimbursement rates .

Within the past eight months, Rite Aid has dropped more than a dozen health-care plans servicing hundreds of thousands. It has refused to do business with Humana Inc., a hospital and HMO operator, because of low reimbursements. Maxicare Inc., the ailing Los Angeles-based HMO operator, was cut off in December after it fell behind in its payments.

Two weeks ago, Rite Aid and Walgreen Co. said they would stop honoring the prescription plan sponsored by the United Mine Workers health and retirement funds if the funds proceed with a plan to reduce reimbursements.

So far, consumers in heavily populated areas such as Philadelphia have not experienced more than minor inconvenience from drugstores' defections. When a few stores drop out, others are happy to pick up the slack in the ever competitive prescription business.

But in rural areas consumers may be scrambling to find a convenient pharmacy to honor their cards.

"We get calls all the time from people complaining that they have to drive umpteens miles. People are calling up very discontent. If you live in West Virginia, and you're a young parent with a sick child at home, it can be very inconvenient," said Charles C. Conaway, Rite Aid's vice president for third party administration.

In the case of the mine workers, for example, Conaway said, "There are 6,000 cooperating pharmacies still in the program. The problem is they are in areas

where, for the most part, there are not any mine workers."

#### ANOTHER OPPONENT

Although less vocal than Rite Aid, CVS Pharmacies also is resisting lower reimbursements. Within the last six months the Rhode Island-based chain dropped one plan and chose not to renew four others.

"The third-party plans produce a lower profit and are becoming a bigger piece of the business. That's the problem," said Thomas M. Ryan, CVS's vice president for pharmacy.

The problem is a critical one in an era when fewer and fewer Americans pay cash for prescriptions.

It is estimated that 35 percent of all prescriptions filled in the United States are paid for by prescription cards, either financed by private insurers, HMOs or Medicaid, the government health plan for the poor. The percentage is steadily climbing, and it is expected to reach 65 percent by the mid-1990s.

The way they work: Cardmembers pay nothing or else a small deductible of a few dollars. They simply present their card to the pharmacist, who in turn bills the employer, insurer or HMO.

But for how much?

The heart of the dispute lies in the arcane science of drug pricing. The drug-stores' invoices are based on a two-part formula: the cost of the drug itself plus a dispensing fee of about three dollars per prescription. Cost is the murky area.

The consensus used to be that cost was what the pharmaceutical industry calls "average wholesale price" - the price listed in various catalogues.

#### LESS THAN WHOLESALE

In the 1970s, when prescription plans were in their infancy, pharmacies set cost as the average wholesale price, and no one complained. But, as big drug chains proliferated, the prescription-plan sponsors realized that retailers the size of a Rite Aid could use their buying muscle to pay far less than average wholesale price.

"The cost of the drug is an area that is somewhat nebulous. It depends on the relationship the pharmacies have with manufacturers and wholesalers," said Robert Brown of Mercer Meindinger Hansen Inc., an employee-benefits consultant.

In a recent study commissioned by Mack Trucks, it was found that drugstores actually pay 15 percent less than average wholesale price for brand-name prescription drugs and up to 50 percent less for generics.

"The situation with the generic drugs is a sham. . . . It's a joke," said David Sackett, executive vice president and chief operating officer of Paid Prescriptions Inc., a Fair Lawn, N.J., firm that administers prescription plans and that did the Mack study.

A sign that pharmacies were making big profits, Sackett says, was that the chains would advertise discounts or waivers of the \$2 or \$3 deductible that some cardholders are required to pay toward each prescription.

Donald Dahlin, president of Pharmaceutical Card Systems, one of the largest prescription-plan administrators, says pharmacies should have to pass on their own cost savings to the employers who pay for the plans.

With prescription drug prices rising about 8 percent a year, Dahlin said, "the pricing mechanism has increased faster than the rate of inflation, so our clients have said we need to press for discounts."

Fran Cornelius, director of personnel services at Ohio University, whose prescription plan was dropped by Rite Aid on Jan. 18., added, "I think Rite Aid is just crying wolf . . . because people like (the plan administrators) and insurers are cracking down on them."

Rite Aid chairman Grass concedes that profit margins for prescription drugs reached as high as 40 percent in the 1970s - but no longer.

Rite Aid says it makes only 72 cents when it fills a \$15.56 prescription through a plan that reimburses the full average wholesale price plus the standard dispensing fee of about \$3. That compares unfavorably to the average profit of \$1.48 for filling a cash customer's prescription.

If Rite Aid were to accept a reimbursement schedule at 90 percent of average wholesale cost - which is what many health plan administrators are demanding - Rite Aid says it would, on average, lose 84 cents per prescription.

While other pharmacies have not released such numbers, they agree that it is far more expensive to fill a prescription on a card than for cash.

Not only is there the administrative headache of paperwork, but the reimbursements don't come in for 30 to 60 days. And each of the myriad plans has varying requirements. Some don't cover birth-control pills or the expensive AIDS medications. Others require a pharmacist to substitute the less-expensive generic drugs for brand-name drugs.

"You fill a prescription and three weeks later, you might get a notice that this person's card is not valid and this drug isn't covered. With the kind of margins we work on, that can hurt you pretty badly," said Gary Wilber, president of Drug Emporium, a discount chain of 167 stores.

'IT'S OUR PROBLEM'

"If we dispense a drug and the claim is rejected, it's our problem," complains Sam Brog, who owns a pharmacy on North Seventh Street in Philadelphia. "The burden of all this monkey business is placed on the pharmacist."

Brog, who in the past accepted most cards, says he no longer participates in any plan that pays less-than-average wholesale price.

"This week, we finally got a list of all those plan numbers so we know how to identify the plans. When the patient comes up to the counter, we will turn them away and tell them to go to their union or employer and complain there," Brog said.

The government-sponsored Medicaid program, which accounts for nearly 18 percent of the prescriptions filled in the country, is not immune to pharmacies' backlash.

In West Virginia, Rite Aid has threatened to stop honoring Medicaid cards because of delinquent payments from the state's Department of Human Services.

Medicaid pays pharmacies either an amount based on average wholesale price or the amount usually paid by cash customers, whichever is lower. Following the lead of private insurers, the federal Health Care Financing Administration is pushing for lower reimbursements.

"Many of the state Medicaid programs are under pressure to reduce their overall expenditures," said Bruce Colligen, director of health services for the National Association of Chain Drug Stores. "One of the easy ways is for them to reduce reimbursements to prescription drugs as opposed to hospitals or doctors. . . . The hospital and doctors have more political clout than the pharmacies."

Robert Wunderle, spokesman and economist for Supermarkets General Corp., the parent of Pathmark, notes that private and government providers of health benefits have been successful in pressing doctors to cut their rates for services.

"They presume that, if there is that kind of leeway there with physicians' fees, there is the same room to give in the pharmacy area," Wunderle says. Where that logic goes awry, he said, is "that the pharmacy is the only leg of the medical system where there is a cost of goods."

"We have seen proposals from various plans that literally propose to compensate us at a rate that is literally less than what we pay for prescription drugs," Wunderle said.

He added, "I think what is going to happen is somebody is going to wake up and discover that their third-party plans are not being honored by any pharmacies. . . . We are on that kind of collision course over this issue."

PHOTO (3)

1. Pharmacist Norman Greenberg at the 1804 Passyunk Ave. Rite Aid will not fill all insurance-paid prescription plans. (The Philadelphia Inquirer / SHARON J. WOHLMUTH)
2. Many pharmacies have stopped honoring third-party plans.
3. The main ingredient in the brouhaha is concern over profit. (The Philadelphia Inquirer / SHARON J. WOHLMUTH)

----- INDEX REFERENCES -----

COMPANY: WALGREEN CO; HUMANA INC; CIGNA CORP; MAXICARE HEALTH PLANS INC; SUPERMARKETS GENERAL CORP; DRUG EMPORIUM INC; RITE AID CORP

NEWS SUBJECT: (HR & Labor Management (1HR87); Social Issues (1SO05); Business Management (1BU42); Business Strategy (1BU97); Social Welfare (1SO83); Benefits (1BE71); Government (1GO80); Corporate Strategy & Strategic Planning (1X003))

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